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BEFORE THE ARIZONA CORPORATION

Arizona Corporation Commission
DOCKETED
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COMMISSIONERS

BOB STUMP - Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

IN THE MATTER OF THE APPLICATION OF HOLIDAY ENTERPRISES, INC. DBA HOLIDAY WATER COMPANY FOR A PERMANENT RATE INCREASE.	DOCKET NO. W-01896A-13-0238
IN THE MATTER OF THE APPLICATION OF HOLIDAY ENTERPRISES, INC. DBA HOLIDAY WATER COMPANY FOR AUTHORITY TO INCUR LONG-TERM DEBT.	DOCKET NO. W-01896A-13-0239 DECISION NO. 74261 **ORDER**

Open Meeting
December 17 and 18, 2013
Phoenix, Arizona

BY THE COMMISSION:

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Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

FINDINGS OF FACT

Procedural History

1. On July 3, 2013, Holiday Enterprises, Inc. d/b/a Holiday Water Company ("Holiday" or "Company") filed an application with the Commission for a permanent rate increase under Docket No. W-01896A-13-0238 ("Rate Application"). Also on July 3, 2013, the Company filed an application for authority to incur long-term debt under Docket No. W-01896A-13-0239 ("Finance Application").

2. The Commission's Utilities Division ("Staff") docketed a Letter of Sufficiency for the Rate Application on July 31, 2013, advising the Company that its Rate Application met the sufficiency requirements of Arizona Administrative Code ("A.A.C.") R14-2-103.

3. Pursuant to Procedural Orders filed in each docket on August 13, 2013, concurrent procedural conferences were held on August 22, 2013, to discuss whether the two dockets should be consolidated.

4. By Procedural Order dated August 27, 2013, the Rate and Finance Applications were consolidated and a deadline of October 15, 2013, established for the Staff Report.

5. On October 15, 2013, Staff filed an unopposed Request for Extension of Time to File Staff Report, from October 15, 2013 to October 18, 2013. Staff's Request for Extension was granted by Procedural Order dated October 17, 2013.

6. The Company mailed a combined rate and financing notice to customers on July 3, 2013.

7. On October 18, 2013, Staff filed its Staff Report recommending approval of the Rate Application using Staff's recommended rates and changes and conditional approval of the Finance Application. Any comments to the Staff Report were to be filed on or before October 28, 2013.

8. Holiday did not file comments or objections to the Staff Report.

9. On November 5, 2013, Staff filed a Notice of Errata and attached a revised Schedule MJR-4 which corrected Staff's recommended rate design by changing the tier break-over points for the 3, 4 and 6 inch meters.

Company Background

10. Holiday is a for-profit Arizona S-Corporation and a Class D public service corporation, providing water utility service to approximately 153 customers in the City of Tombstone, Cochise County, Arizona. Of its 153 customers, 151 were served by 5/8 x ¾ inch meters, and 2 were served by 1 inch meters.

11. Holiday received its Certificate of Convenience and Necessity ("CC&N") for the water system in Decision No. 35142 (April 1, 1964).

12. Holiday's current rates were established in Decision No. 60408 (September 26, 1997).

13. Holiday's existing system consists of a well drilled in 1963, two storage tanks (5,000 and 20,000 gallons), one booster pump, one pressure tank, and a distribution system.

14. Holiday has a Use Agreement for an emergency interconnect with the City of

Tombstone, Arizona, which is used to address the daily demands of the Holiday system. The Company used water from the City of Tombstone in two months during the test year at a cost of $156. Through June 30, 2013, the Company used water from the City of Tombstone in three different months at a cost of $625. The Company also has access to a private well that was drilled by one of its customers.

15. The Commission's Consumer Services Section records indicate that for the period January 1, 2010, through September 5, 2013, three complaints were filed against the Company, and that all were resolved and closed. Staff reports that its review of the Company's billing format shows that it is in compliance with A.A.C. R14-2-409(B)(2).

16. Holiday has an approved Backflow Prevention tariff on file with the Commission, and Staff states that a Curtailment tariff was expected to be docketed in October 2013.

17. Staff could not determine a valid water loss figure for the test year because the Company reported the same quantity of gallons pumped and gallons sold.[1]

18. Even assuming little or no growth over the next five years, Staff concluded that Holiday does not have adequate production and storage capacity to serve its existing customers and reasonable growth.[2]

19. Holiday received a grant from the Water Infrastructure Finance Authority ("WIFA") in the amount of $34,850 (60 percent of the cost) to hire an engineer/contractor to provide technical assistance in addressing issues noticed by the Arizona Department of Environmental Quality ("ADEQ") on September 10, 2012. The Company's service area contains numerous hills and valleys with the consequence that areas in the far north and east experience water pressure that drops below the required 20-psi. A study of the Holiday system, prepared by Tres Rios Consulting Engineers, Inc., focused on the water pressure and storage issues identified by ADEQ and recommended improvements to the system totaling $225,000. As discussed in greater detail below, the Company's Finance Application requests authority to borrow $225,000 from WIFA to fund the recommended construction and improvements to the system.

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[1] Staff Report, Engineering Report at 3.

[2] Holiday's Finance Application proposes several projects to remedy the system deficiencies. *See* Staff Report, Engineering Report at 4.

20. ADEQ reported that Holiday is currently delivering water that meets the water quality standards required by 40 CFR 141 and A.A.C. Title 18, Chapter 4.[3]

21. Holiday is not located in an Active Management Area ("AMA") and is not subject to any Arizona Department of Water Resources ("ADWR") reporting and conservation requirements. ADWR reported that Holiday is currently in compliance with departmental requirements governing water providers and/or community water systems.[4]

22. The Commission's Utilities Division Compliance Section shows no delinquent Commission items for this Company.

Rate Application

23. According to Staff, in the test year ended December 31, 2012, Holiday had an Operating Loss of $1,134, on Staff-adjusted total revenue of $56,537, for no rate of return on an adjusted rate base of $43,359.[5]

24. In its Rate Application, Holiday proposed Operating Revenue of $94,222, an increase of $38,399, or 68.79 percent, over Company-reported test year revenue of $55,823, to provide Operating Income of $47,247, a 165.8 percent rate of return on its proposed $28,482 Fair Value Rate Base ("FVRB"). The Company's proposed rates result in a 50.14 percent Operating Margin, and would increase the typical monthly bill for a 5/8 x ¾ inch meter customer, with a median usage of 4,500 gallons, by $14.72, or 62.72 percent, from $23.46 to $38.18.

25. Staff recommends permanent rates that produce a total Operating Revenue of $70,485, an increase of $13,948, or 24.67 percent, over Staff-adjusted test year revenue of $56,537, to provide Operating Income of $10,573, a 24.3 percent rate of return on the $43,359 Staff-adjusted FVRB. Staff's recommended permanent rates would increase the typical monthly bill for a 5/8 x ¾ inch meter customer, with a median usage of 4,500 gallons by $0.54, or 2.30 percent from $23.46 to $24.00. Staff also recommends, however, a surcharge to cover debt service costs (as discussed below) that would provide additional revenue of $19,528, for total revenue of $90,013.[6] Staff

[3] ADEQ Report dated July 12, 2013. *See* Staff Report, Engineering Report at 4.
[4] ADWR compliance status report dated October 10, 2013; *See* Staff Report, Engineering Report at 5.
[5] The Rate Application, as filed, indicated test year Operating Income of $8,848, on total revenue of $55,823, for a 31.07 percent rate of return on the Company-reported rate base of $28,482. *See* Staff Report Schedule MJR-1.
[6] Staff Report at Schedule MJR-7.

estimates that the WIFA loan surcharge would add an additional $11.43 to the monthly bill for each 5/8 x ¾ inch meter customer. The combined impact of Staff's recommended permanent rates and WIFA loan surcharge would increase the typical monthly bill for a 5/8 x ¾ inch meter customer with a median usage of 4,500 gallons by $11.97, or 51.01 percent from $23.46 to $35.43.[7]

Rate Base

26. Staff made three adjustments to the Company's proposed rate base as presented in the Rate Application, which resulted in a net increase of $14,877, from $28,482 to $43,359. Staff's rate base adjustments are as follows:

(a) Staff increased Plant by $3,332, which included: 1) an $8,130 increase to conform to the balances in the last rate case which used a 1996 test year; 2) a decrease in 2008 additions of $1,229 to conform to supporting documentation; and 3) a decrease of $3,569 for Meters to remove a back flow device owned by the City of Tombstone.

(b) Staff decreased Accumulated Depreciation by $5,935, from $95,130 to $89,195. Staff calculated the Accumulated Depreciation balance by adding Depreciation Expense for the years 1997-2012 using a ½-year convention for Additions and Retirements, and subtracting Accumulated Depreciation for recorded plant retirements.

(c) Staff included a Cash Working Capital Allowance of $5,610 based on the formula method, which recognizes one-eighth of the operating expenses excluding depreciation, taxes, and purchased power and water expenses, plus one twenty-fourth of purchased power and water expenses.

27. The Company did not object to Staff's adjustments to rate base. Staff's adjustments are reasonable and we adopt them. Consequently, we find that for the test year ended December 31, 2012, Holiday's Original Cost Rate Base ("OCRB") is $43,359. The Company did not provide Reconstruction Cost New Less Depreciation information, thus, its FVRB is the same as its OCRB.

Operating Income

28. Staff recommended adjustments that increased the Company's proposed Operating

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[7] Staff Report Schedule MJR 5.2.

Revenue by $714, from $55,823 to $56,537, and increased the Company-proposed total Operating Expenses by $10,696, from $46,975 to $57,671.

29. Staff adjusted Metered Water Revenue upwards by $714 to match the billing determinants calculation.

30. Staff recommended twelve adjustments to the Company-proposed test year Operating Expenses as follows:

(a) Staff decreased Salaries and Wages by $6,146, from $6,146 to $0, to remove salaries paid through April 15, 2012, in order to reflect a change from having salaried employees to operating under a management contract.

(b) Staff increased the cost of Purchased Water by $852, from $148 to $1,000, to reflect increased costs for water purchased from the City of Tombstone.

(c) Staff increased Repairs and Maintenance Expense by $2,387, from $2,801 to $5,188, to normalize the cost of repairs and maintenance based on the average of four years.

(d) Staff increased Office Supplies and Expense by $1,562, from $1,058 to $2,620, to normalize the cost of office supplies and expense based on the average of four years.

(e) Staff increased Outside Services by $11,015, from $13,030 to $24,045, to recognize the change from salaried employees to a full year of a management contract for services, remove tax preparation services, and annualize Certified Operator costs.

(f) Staff increased Water Testing Expense by $359, from $1,554 to $1,913, to reflect the Staff Engineer's recommended amount.[8]

(g) Staff increased Rent Expense by $1,000, from $2,552 to $3,552, to allow for management use of the home office.

(h) Staff increased Rate Case Expense by $333, from $0 to $333, to allow for Rate Case costs of $1,000 normalized over three years.

(i) Staff increased Depreciation Expense by $2,234, from $1,249 to $3,483, to reflect the application of Staff's recommended depreciation rates to Staff's recommended depreciable plant

[8] Staff Report, Engineering Report at 5.

balances.[9]

(j) Staff decreased Taxes Other Than Income by $470, from $470 to $0, to remove payroll taxes that will not be incurred after the switch from salaried employees to a management contract.

(k) Staff decreased Property Taxes by $2,267, from $4,516 to $2,249, to reflect application of the modified version of the Arizona Department of Revenue's ("ADOR") property tax methodology.

(l) Staff decreased Income Tax Expense by $163, from $0 to negative $163, to reflect Staff's calculation of Income Taxes on the test year operating loss.

31. The Company did not file an objection to Staff's adjustments to test year revenues or expenses.

Revenue Requirement

32. Staff recommends total Operating Revenue from permanent rates of $70,485, an increase of $13,948, or 24.67 percent, over the Staff-adjusted test year revenue of $56,537. Staff's recommended revenue and expense levels provide an Operating Income of $10,573, a 24.4 percent rate of return on FVRB, and a 15.00 percent Operating Margin.

33. The permanent rates recommended by Staff result in cash flow from operations of $14,611.[10] Assuming a WIFA loan in the amount of $225,000, amortized over 20 years at an annual interest rate of 3.94 percent, Staff's recommended permanent rates produce a Times interest Earned Ration ("TIER") of 1.44, and a Debt Service Coverage ratio ("DSC") of 0.98.[11] Staff states that its recommended revenue is sufficient to cover operating and maintenance expenses and to manage contingencies, but is not sufficient to provide debt service on the Company's proposed loan.[12] As discussed later, Staff recommends a surcharge mechanism to cover the debt service on the proposed loan.

34. Staff's combined recommended permanent rates and recommended WIFA surcharge

[9] Staff Report Schedule MJR-3 at 4.
[10] Staff Report Schedule MJR-7.
[11] TIER represents the ability of the Company to pay interest expenses before taxes. DSC represents the ratio of cash available for debt servicing of interest and principal.
[12] Staff Report at 7.

revenues of $90,013 are $4,209 less than the Company's originally request revenue level. The Company, however, did not object to Staff's revenue requirement recommendations.

Rate Design

35. The current rate structure includes a monthly minimum charge that increases by meter size and a $1.88 per 1,000 gallon commodity rate for all gallons and for all meter sizes. No gallons are included in the monthly minimum charge for any meter size.

36. The Company's current and proposed rates and Staff's recommended rates are as follows:

	Present Rates	Proposed Rates Company	Proposed Rates Staff
MONTHLY USAGE CHARGE:			
5/8" x ¾" Meter	$15.00	$27.00	$15.00
¾" Meter	17.50	31.00	22.50
1" Meter	20.00	35.50	37.50
1 ½" Meter	35.00	62.00	75.00
2" Meter	50.00	88.50	120.00
3" Meter	65.00	115.00	240.00
4" Meter	80.00	141.50	375.00
6" Meter	100.00	177.00	750.00
Gallons included in minimum	0	0	0
Commodity Rate Charge – Per 1,000 Gallons			
5/8 x ¾ inch meter			
Company and Staff			
Tier 1 0-3,000 gallons	$1.88	$2.10	$1.75
Tier 2 3,001 to 10,000 gallons	1.88	3.25	2.50
Tier 3 Over 10,000 gallons	1.88	4.20	4.17
¾ inch meter			
Company and Staff			
Tier 1 0-3,000 gallons	1.88	2.10	1.75
Tier 2 3,001 to 10,000 gallons	1.88	3.25	2.50
Tier 3 Over 10,000 gallons	1.88	4.20	4.17
1 inch meter			
Company			
Tier 1 0-3,000 gallons	1.88	2.10	
Tier 2 3,001 to 10,000 gallons	1.88	3.25	
Tier 3 Over 10,000 gallons	1.88	4.20	

Staff			
Tier 1 First 15,000 gallons			2.50
Tier 2 Over 15,000 gallons			4.17
1 ½ inch meter			
Company			
Tier 1 0-3,000 gallons	1.88	2.10	
Tier 2 3,001 to 10,000 gallons	1.88	3.25	
Tier 3 Over 10,000 gallons	1.88	4.20	
Staff			
Tier 1 First 25,000 gallons			2.50
Tier 2 Over 25,000 gallons			4.17
2 inch meter			
Company			
Tier 1 0-3,000 gallons	1.88	2.10	
Tier 2 3,001 to 10,000 gallons	1.88	3.25	
Tier 3 Over 10,000 gallons	1.88	4.20	
Staff			
Tier 1 First 45,000 gallons			2.50
Tier 2 Over 45,000 gallons			4.17
3 inch meter			
Company			
Tier 1 0-3,000 gallons	1.88	2.10	
Tier 2 3,001 to 10,000 gallons	1.88	3.25	
Tier 3 Over 10,000 gallons	1.88	4.20	
Staff			
Tier 1 First 90,000 gallons			2.50
Tier 2 Over 90,000 gallons			4.17
4 inch meter			
Company			
Tier 1 0-3,000 gallons	1.88	2.10	
Tier 2 3,001 to 10,000 gallons	1.88	3.25	
Tier 3 Over 10,000 gallons	1.88	4.20	
Staff			
Tier 1 First 120,000 gallons			2.50
Tier 2 Over 120,000 gallons			4.17
6 inch meter			
Company			
Tier 1 0-3,000 gallons	1.88	2.10	
Tier 2 3,001 to 10,000 gallons	1.88	3.25	
Tier 3 Over 10,000 gallons	1.88	4.20	
Staff			
Tier 1 First 300,000 gallons			2.50
Tier 2 Over 300,000 gallons			4.17

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable pursuant to A.A.C. R14-2-40-5)

	Current	Proposed Company	Proposed Staff Service Line	Proposed Staff Meter Installation	Proposed Staff Total
5/8" x ¾" Meter	$330.00	$520.00	$415.00	$105.00	$520.00
¾" Meter	375.00	620.00	415.00	205.00	620.00
1" Meter	440.00	730.00	465.00	265.00	730.00
1 ½" Meter	660.00	995.00	520.00	475.00	995.00
2" Meter	1,155.00	1,795.00	800.00	995.00	1,795.00
3" Meter	1,625.00	2,635.00	1,015.00	1,620.00	2,635.00
4" Meter	2,540.00	4,000.00	1,430.00	2,570.00	4,000.00
6" Meter	4,875.00	7,075.00	2,150.00	4,925.00	7,075.00

SERVICE CHARGES:

	Current	Proposed Company	Proposed Staff
Establishment	$20.00	$40.00	$30.00
Establishment (After Hours)	50.00	N/A	NT
Reconnection (Delinquent)	20.00	40.00	30.00
Meter Test (If Correct)	25.00	45.00	35.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-establishment (Within 12 Months)	**	**	**
NSF Check	10.00	25.00	20.00
Deferred Payment	1.5%	***	***
Meter Reread (If Correct)	12.00	25.00	20.00
Late Fee	1.5%	1.5%	1.5%
After Hours Service Charge	N/A	50.00	40.00

NT=No Tariff

Monthly Service Charge for Fire Sprinkler:

	Current	Proposed Company	Proposed Staff
4" or Smaller	$0.00	****	****
6"	$0.00	****	****
8"	$0.00	****	****
10"	$0.00	****	****
Larger than 10"	$0.00	****	****

* Per Commission rule A.A.C. R-14-2-403(B).
** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).
*** 1.5% on the unpaid balance per month.
**** 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than $5.00 per month. The Service Charge for Fire Sprinkles is only applicable for service lines separate and distinct from the primary water service line.

37. The Company proposed a rate structure that includes a monthly minimum charge that

increases by meter size and an inverted three-tier commodity rate for all meter sizes with break-over points at 3,000 gallons, and 10,000 gallons for all meter sizes. The Company's proposed rates would increase the typical monthly bill for a 5/8 x ¾ inch meter customer, with a median usage of 4,500 gallons, by $14.72, or 62.72 percent, from $23.46 to $38.18.[13]

38. Staff recommends a rate structure that includes a monthly minimum charge that increases by meter size and an inverted three-tier commodity rate for all 5/8 x ¾ inch and ¾ inch meters, and a two-tier commodity rate for larger meters. Staff recommends break-over points that increase by meter size, and a greater ratio among the monthly minimum charges for the various meter sizes and among the commodity rates than those proposed by the Company. Under Staff's recommended permanent rates, the typical monthly bill for a 5/8 x ¾ inch meter customer, with a median usage of 4,500 gallons, would increase by $0.54, or 2.30 percent from $23.46 to $24.00.[14]

39. The Company proposes to increase all of its service line and meter installation charges. Staff recommends approving the increases, but breaking out the charges for the meter and the service line.

40. The Company proposes increases of $20 to each of the following charges: "Establishment" (from $20 to $40), "Reconnection-Delinquent" (from $20 to $40), and "Meter Test" (from $25 to $45). In addition, the Company proposed a $13 increase to "Meter Re-read" (from $12 to $25); a $15 increase to the "Non-Sufficient Funds" ("NSF") check charge (from $10 to $25); and the addition of an "After Hours Service" charge of $50.

41. Staff recommends smaller increases to the Service Charges than proposed by the Company based on typical service charges in Arizona. Staff recommends eliminating the "Establishment (After Hours)" charge of $50 because it is not necessary with the addition of a separate charge for "After Hours Service." Staff recommends a $40 charge for "After Hours Service" calls performed at the customer's request. Staff believes such a charge is appropriate to compensate the utility for additional expenses incurred when providing after-hours service, and is in addition to the charge for any utility service provided after hours at the customer's request. Staff recommends

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[13] Staff Report Schedule MJR-5.1.
[14] Staff Report Schedule MJR-5.1.

inserting the words "(if correct)" after "Meter Re-read" and "Meter Test" in the tariff.

42. The Company did not object to the Staff-recommended rates and charges.

Finance Request

43. Holiday applied to WIFA for a $225,000 loan to fund the cost of the recommended improvements to ameliorate water pumping, storage and pressure issues noted by ADEQ. The recommended improvements include:

Drill a new well and install a 5,000 gallon storage tank	$112,000
Purchase a private well,[15] install booster station and two 10,000 gallon storage tanks	$ 63,000
Purchase used John Deer backhoe and install two pressure sustaining valves	$ 15,000
Contingency	$ 35,000
Total	$225,000

44. Staff concludes that the proposed plant is appropriate and agrees that the estimated cost of $225,000 is reasonable.[16] However, Staff makes no "used and useful" determination for rate making treatment regarding the proposed improvements to be financed with WIFA funds.

45. As of the end of the test year (December 31, 2012), Holiday had a capital structure consisting of 100 percent equity. A pro forma capital structure reflecting the issuance of the proposed $225,000 WIFA loan, shows Holiday would have a capital structure consisting of 2.7 percent short-term debt, 78.3 percent long-term debt and 19 percent equity.

46. Staff states that WIFA has indicated that the Company would receive a typical loan based on the prime rate (currently 3.25 percent) plus 2.00 percent and a 75 percent subsidy rate, or an estimated interest rate of 3.94 percent.[17] Staff states that the typical WIFA loan is for 20 years with a 19.5-year amortization (interest-only for the first six months). Based on the forgoing assumptions, the annual debt service (principal and interest) on a $225,000, 20-year loan at 3.94 percent per annum, would be $16,272.[18] WIFA also requires loan recipients to fund a Debt Service Reserve Fund

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[15] This is the same well to which the Company currently has been granted access.
[16] Staff Report Engineering Report at 9.
[17] (3.25% + 2.00) x .75 = 3.94%
[18] Staff Report Schedule MJR 6.2.

("DSRF") or Replacement Fund equal to 20 percent of the debt service, which in this case, would be $3,255.

47. Under Staff's recommended permanent rates and the anticipated WIFA loan terms, Staff calculated a pro forma 0.98 DSC,[19] which shows that cash flow from operations would be insufficient to cover debt service on the proposed loan. Thus, Staff asserts that the Company would need an additional source of funds other than the recommended permanent rates to meet all obligations associated with the proposed loan.

48. WIFA's minimum DSC requirement is 1.20.

49. Staff's cash flow analysis appears to indicate that the Company would need additional funds of $19,528 to meet all of its obligations including debt service on the proposed loan, the required DSRF, and to provide uncommitted cash flow of $12,470 for operating contingencies.[20] Assuming the adoption of Staff's recommended permanent rates that produce revenue of $70,485, and WIFA loan surcharge that produces additional revenue of $19,528, Holiday would have total revenues of $90,013, an increase of $33,476 over test year revenue of $56,537. Holiday's DSC would be 2.11.[21]

50. Staff calculated that a 5/8 x ¾ inch meter equivalent surcharge of $11.43 would produce the additional revenue needed for the debt service on the WIFA loan.[22] The combined infrastructure surcharge and Staff's recommended permanent rates would increase the typical monthly residential bill for a 5/8 x ¾ inch meter customer with a median usage of 4,500 gallons by $11.97, or 51.02 percent, from $23.46 to $35.43.[23]

51. Staff believes that because the first payment on a WIFA loan is due six month after closing, there is a window of time for the Company to obtain the loan, submit the loan documents to the Commission, and obtain authorization to implement a loan surcharge after the final terms of the loan become known.

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[19] *See* Staff Report at Schedule MJR-6.1.

[20] Staff Report Schedule MJR-7. Staff's cash flow analysis appears to slightly understate the additional revenue needed to cover both the debt service and the DSRF requirements, by not capturing the full effect on income and property taxes as a result of the revenues attributable to the DSRF requirement.

[21] Staff Report Schedule MJR 6.1.

[22] Staff Report Schedule MJR-8.

[23] Staff Report Schedule MJR-8.

52. A.A.C. R18-15-104 requires WIFA borrowers to pledge their revenue sources to repay the financial assistance. Arizona Revised Statutes ("A.R.S.") §40-285 requires public service corporations to obtain Commission authorization to encumber certain utility assets. The statute serves to protect captive customers from a utility disposing of assets that are necessary for the provision of service; thus preempting any service impairment that could result from such disposal. Staff states that pledging assets as security typically provides benefits to the borrower in the way of increased access to capital funds or preferable interest rates, and it is often an unavoidable condition for procurement of funds for small or financially stressed entities.

Conclusions and Resolution

53. Staff recommends the following which are unopposed by Holiday:

(a) Approval of Staff's rates and charges.

(b) In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax, per A.A.C. R14-2-409(D)(5).

(c) Direct the Company to docket with the Commission a schedule of its approved rates and charges within 30 days after the date the Decision is this matter is issued.

(d) Authorize the depreciation rates shown in Table B of the Engineering Report.

(e) Grant the Company authorization to incur an 18 to 20 year amortizing loan in an amount not to exceed $225,000 pursuant to a loan agreement with WIFA, at an interest rate not to exceed that available from WIFA.

(f) Establish an expiration date for any unused authorization to incur debt granted in this proceeding of December 31, 2015.

(g) Grant the Company authorization to charge a WIFA surcharge to become effective at a date and in a manner as subsequently authorized by the Commission.

(h) Direct the Company to file as a compliance item in this Docket, within 30 days of the execution of any financing transaction authorized herein, a notice confirming that such execution has occurred and a certification by an authorized Company representative that the terms of the financing fully comply with the authorizations granted.

(i) Direct the Company to provide to the Utilities Division, upon Staff request, a copy of any WIFA loan documents executed pursuant to the authorizations granted herein.

(j) Direct the Company to file in this Docket, upon filing of the loan closing notice, an application requesting to implement an associated surcharge.

(k) Direct Staff to calculate the appropriate WIFA surcharge and prepare and file a Recommended Order for Commission consideration within 30 days of the filing of a surcharge implementation request by the Company, and to calculate the surcharge based on the actual loan debt service (interest and principal payments), WIFA reserve and incremental income taxes using the current customer count at the time of the loan closing.

(l) Direct that upon Commission approval of the WIFA surcharge, the Company open an interest-bearing account into which all WIFA surcharge funds collected from customers will be deposited.

(m) Direct that funds from this account shall be used solely to repay the WIFA loan.

(n) Direct the Company to file its next general rate case no later than June 30, 2018, using a test year ending December 31, 2017.

(o) Authorize the Company to pledge its assets in the State of Arizona pursuant to A.R.S. §40-285 and A.A.C. R18-15-104 in connection with the WIFA loan.

(p) Authorize Holiday to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

(q) Direct Holiday, as a compliance item in this case, to notify its customers of the authorized rates and charges approved in this proceeding, and their effective date, in a form acceptable to Staff, by means of an insert in its next regularly scheduled billing and to file copies with Docket Control within 10 days of the date notice is sent to customers.

(r) Direct the Company to monitor its water usage and submit the gallons pumped and sold to determine the non-account water for one full year. The Company should coordinate when it reads the well meters each month with customer billing so that an accurate accounting is determined. The results of this monitoring and reporting shall be docketed as a compliance item in this case within 15 months of the effective date of the Order issued in this proceeding. If the reported water loss is greater than 10 percent, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost/benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 15 months of the effective date of the Order issued in this proceeding.

(s) Direct the Company to file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a Decision in this matter, at least three BMPs in the form of tariffs that substantially conform to the templates created by Staff for Commission review and consideration. The templates created by Staff are available on the Commission's website at http://www.azcc.gov/Divisions/Utilities/forms.asp.[24]

(t) Direct the Company to file by May 31, 2015, as a compliance item in this docket, a copy of the Approval of Construction ("AOC") issued by ADEQ for its two new wells and three storage tanks.

54. We find that Staff's recommended adjustments to rate base, test year Operating Revenue and individual test year Operating Expenses are reasonable. In addition, we find that approval of the requested financing of the plant improvements as set forth in the Finance Application and Staff Report is in the public interest as it is reasonable necessary to correct system deficiencies. We agree with Staff's conclusions that a permanent rate increase to cover operating expenses and provide additional cash flow for contingencies, plus adopting a WIFA surcharge mechanism to meet the actual debt service costs is in the public interest. Under this approach, the Company collects adequate revenues from permanent rates to meet on-going expenses and unforeseen events, and then collects additional revenues to cover the actual debt service costs once the specific loan terms are known. Ratepayers benefit from the improved service that will result from the system improvements.

55. We find that an increase in permanent rates of $11,189, or 19.8 percent, from test year revenues of $56,537 to $67,726, is reasonable in this case.[25] Revenue received from operations

[24] Staff states that Holiday may request cost recovery of the actual costs associated with the BMPs implemented in its next general rate application.
[25] This is $2,759 less than recommended by Staff.

totaling $67,726 would cover all Operating Expenses and yield Operating Income of $8,517, and an uncommitted cash flow of $12,000 for contingencies. It results in a rate of return of 19.64 percent on FVRB, and an Operating Margin of 12.58 percent.

56. We find the following rates, designed to generate revenue from operations of $67,726, to be fair and reasonable:

MONTHLY USAGE CHARGE:

5/8" x ¾" Meter	$15.00
¾" Meter	22.50
1" Meter	37.50
1 ½" Meter	75.00
2" Meter	120.00
3" Meter	240.00
4" Meter	375.00
6" Meter	750.00

Commodity Rate Charge – Per 1,000 gallons

5/8 x ¾ inch meter	
Tier 1 0-3,000 gallons	$1.50
Tier 2 3,001 to 10,000 gallons	2.25
Tier 3 Over 10,000 gallons	4.00
¾ inch meter	
Tier 1 0-3,000 gallons	1.50
Tier 2 3,001 to 10,000 gallons	2.25
Tier 3 Over 10,000 gallons	4.00
1 inch meter	
Tier 1 First 15,000 gallons	2.25
Tier 2 Over 15,000 gallons	4.00
1 ½ inch meter	
Tier 1 First 25,000 gallons	2.25
Tier 2 Over 25,000 gallons	4.00
2 inch meter	
First 45,000 gallons	2.25
Over 45,000 gallons	4.00
3 inch meter	
First 90,000 gallons	2.25
Over 90,000 gallons	4.00

4 inch meter	
First 140,000 gallons	2.25
Over 140,000 gallons	4.00
6 inch meter	
First 280,000 gallons	2.25
Over 280,000 gallons	4.00

57. The permanent rates (without the WIFA surcharge) result in a monthly decrease of $0.58, or 2.4 percent, in the bill of the median 5/8" x ¾" meter customer using 4,500 gallons, from $23.46 to $22.88. The average 5/8" x ¾" meter customer, using 8,100 gallons, would see a monthly increase of $0.75, or 2.47 percent, from $30.23 to $30.98 as a result of the increased permanent rates.

58. We further find that Staff's recommendations for the line and meter charges as well as service charges, are just and reasonable.

59. Although the permanent rates and charges approved herein are sufficient to provide adequate revenue for operating expenses and contingencies, they will not provide the funds needed for debt service on the proposed WIFA loan. Under these permanent rates and a $225,000 WIFA loan as discussed herein, Holiday would have a TIER of 1.12, DSC of 0.81 and Cash Coverage Ratio ("CCR") of 1.52. A DSC less than 1.0 indicates that funds from operations are not sufficient to cover debt service.

60. A WIFA loan with a principal amount of $225,000, amortizing over 20 years at an annual interest rate of 3.94 percent, would result in an annual interest expense of $8,724 and principal repayment obligation of $7,549. The WIFA required DSRF requires an additional $3,255 per month.[26] The incremental property and income taxes from the additional revenue associated with the DSRF would be $287 and $1,841, respectively. Thus, in order to cover the interest and principal on the proposed WIFA loan, plus WIFA's DSRF requirement, and the incremental property and income taxes associated with the additional revenue, Holiday will need additional revenues from the WIFA loan surcharge of $21,656.[27]

61. Holiday's cash flow with and without the proposed WIFA loan and estimated

[26] 0.2($7,549 + $8,724) = $3,255.
[27] $8,724 + $7,549 + $3,255 + $287 + +1,841 = $21,656. The property and income tax amounts shown here are for the entire WIFA surcharge revenues.

surcharge is set forth below:

	Without Proposed Loan	With Proposed Loan and Surcharge
Cash Inflows		
461 Metered Water Revenue	$67,004	$67,004
460 Unmetered Water Revenue	0	0
474 Other Water Revenues	722	722
Revenue – Surcharge	0	21,656
Total Revenue	**67,726**	**89,382**
Cash Outflows		
601 Salaries and Wages	0	0
610 Purchased Water	1,000	1,000
615 Purchased Power	9,830	9,830
618 Chemicals	0	0
620 Repairs and Maintenance	5,188	5,188
621 Office Supplies & Expense	2,620	2,620
630 Outside Services	24,045	24,045
635 Water Testing	1,913	1,913
641 Rents	3,552	3,552
650 Transportation Expenses	2,476	2,476
657 Insurance - General Liability	0	0
659 Insurance - Health and Life	0	0
666 Rate Case Expense	333	333
675 Miscellaneous Expense	1,145	1,145
403 Depreciation Expense	3,483	3,483
408 Taxes Other Than Income	0	0
408.11 Property Taxes	2,397	2,685
409 Income Tax	1,227	3,068
Total Expenses	**59,210**	61,338
Operating Income	**8,517**	**28,044**
Plus: Depreciation Expense	3,493	3,493
Less: Loan Payment Interest	0	8,724
Less: Loan Payment Principal	0	7549
AIAC Refunds	0	0
Cash Flow from Operations before WIFA Reserve	**12,000**	**15,255**
WIFA Reserve (20% of Principal and Interest)	0	3,255
Cash Flow from Operations after WIFA Reserve	**12,000**	**12,000**
Operating Income	**8,517**	**28,044**
Less WIFA Loan Interest		**8,724**
Net Income	**8,517**	**19,320**

62. Based on the assumptions herein, and the need for additional revenue of $21,656, with

151 5.8 x ¾ inch meter customers and two 1 inch meter customers, the estimated monthly surcharge for the 5/8 inch meter customer would be $11.54. The actual surcharge amount will be determined based on the actual loan terms and customer counts at the time Holiday files its surcharge implementation application. Based on the permanent rates and including the estimated WIFA surcharge, the median 5/8 inch meter customer using 4,500 gallons a month would see a monthly increase of $10.96, or 46.71 percent, from $23.46 to $34.42.

63. With additional loan surcharge revenues of $21,656 (total revenues of $89,382), Holiday would have a TIER of 3.57, DSC of 2.13, CCR of 3.97 and Operating Margin of 31.38 percent.

64. In Decision Nos. 74037 (August 16, 2013) (Clear Springs Utility Co. ("Clear Springs")) and 74175 (October 25, 2013)(Payson Water Co. ("PWC")), the Commission approved financing requests similar to the request in this case, where the debt service was to be provided by the implementation of a surcharge. In the Clear Springs and PWC cases, the Commission treated the portion of the surcharge collections related to the DSRF and associated incremental income and property taxes as regulatory liabilities. In Decision No. 74175, the Commission held that because the required DSRF that customers will pay as part of the surcharge is not an element of the utility's cost of service, the monies derived from these customer funds are not revenues that are available for the benefit of the company. "Rather, the monies paid by customers that are attributable to the debt reserve portion of the WIFA loan surcharge represent advances by customers to which they are entitled to receive recognition through a refund, amortization against expenses, or other compensation, as may be determined by the Commission in the future. We will therefore, in accordance with the National Association of Regulatory Commissioners Uniform System of Accounts ("NARUC USoA) Account No. 253, direct PWC to track and separately record as a regulatory liability, the surcharge proceeds associated with the debt service reserve fund."[28] Clear Springs was also directed to treat that portion of the WIFA surcharge allocated to the DSRF as a regulatory liability.[29]

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[28] Decision No. 74175 at Findings of Fact No. 26.
[29] Decision No. 74037 at Findings of Fact No 177.

65. It is equitable to treat the portion of the WIFA surcharge allocated to the DSRF and related incremental income and property taxes as a regulatory liability because otherwise the utilities are not incentivized to invest their own capital instead of relying on ratepayer bailouts. To be consistent with our recent Decisions and because of the equities inherent when ratepayers directly fund WIFA debt service, we will direct Holiday to track and separately record as a regulatory liability, the surcharge proceeds associated with the DSRF, and to maintain an accurate balance of the regulatory liability until its obligation to ratepayers is completely satisfied.

66. Based on the assumptions used herein, the portion of the WIFA surcharge that would constitute the regulatory liability would be $4,002, comprised of $3,255 for the DSRF, $53 for property taxes and $694 for income taxes. The amounts may differ if the actual loan terms are different than the assumptions discussed herein.

67. Staff's additional recommendations, as set forth in Findings of Fact No. 53 sub-paragraphs (b) though (t), are reasonable and we adopt them.

CONCLUSIONS OF LAW

1. Holiday is a public service corporation pursuant to Article XV of the Arizona Constitution and A.R.S. §§ 40-250, 40-251, 40-285, 40-301, 40-302 and 40-303.

2. The Commission has jurisdiction over Holiday and the subject matter of the applications.

3. Notice of the proceeding was provided in conformance with law.

4. Holiday's FVRB is $43,359.

5. The rates, charges and conditions of service approved herein are just and reasonable and in the public interest.

6. The financing as approved herein is for lawful purposes within Holiday's corporate powers, is compatible with the public interest, with sound financial practices, and with the proper performance by Holiday of service as a public service corporation, and will not impair Holiday's ability to perform the service.

7. The financing approved herein is for the purposes stated in the Finance Application, is reasonably necessary for those purposes and such purposes may not be reasonably chargeable to operating expenses or to income.

8. Staff's recommendations, as modified herein, are reasonable and in the public interest.

ORDER

IT IS THEREFORE ORDERED that Holiday Enterprises, Inc. d/b/a Holiday Water Company is hereby authorized and directed to file with the Commission, as a compliance item in this Docket, on or before December 31, 2013, a revised tariff setting forth the following rates and charges:

MONTHLY USAGE CHARGE:

5/8" x ¾" Meter	$15.00
¾" Meter	22.50
1" Meter	37.50
1 ½" Meter	75.00
2" Meter	120.00
3" Meter	240.00
4" Meter	375.00
6" Meter	750.00

Commodity Rate Charge – Per 1,000 Gallons

5/8 x ¾ inch meter	
Tier 1 First 3,000 gallons	$1.50
Tier 2 3,001 to 10,000 gallons	2.25
Tier 3 Over 10,000 gallons	4.00
¾ inch meter	
Tier 1 First 3,000 gallons	1.50
Tier 2 3,001 to 10,000 gallons	2.25
Tier 3 Over 10,000 gallons	4.00
1 inch meter	
Tier 1 First 15,000 gallons	2.25
Tier 2 Over 15,000 gallons	4.00
1 ½ inch meter	
Tier 1 First 25,000 gallons	2.25
Tier 2 Over 25,000 gallons	4.00
2 inch meter	
Tier 1 First 45,000 gallons	2.25

Tier 2 Over 45,000 gallons	4.00
3 inch meter	
Tier 1 First 90,000 gallons	2.25
Tier 2 Over 90,000 gallons	4.00
4 inch meter	
Tier 1 First 140,000 gallons	2.25
Tier 2 Over 140,000 gallons	4.00
6 inch meter	
Tier 1 First 280,000 gallons	2.25
Tier 2 Over 280,000 gallons	4.00

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable pursuant to A.A.C. R14-2-40-5)

	Service Line	Meter Installation	Total
5/8" x ¾" Meter	$415.00	$105.00	$520.00
¾" Meter	415.00	205.00	620.00
1" Meter	465.00	265.00	730.00
1 ½" Meter	520.00	475.00	995.00
2" Meter	800.00	995.00	1,795.00
3" Meter	1,015.00	1,620.00	2,635.00
4" Meter	1,430.00	2,570.00	4,000.00
6" Meter	2,150.00	4,925.00	7,075.00

SERVICE CHARGES:

Establishment	$30.00
Reconnection (Delinquent)	30.00
Meter Test (If Correct)	35.00
Deposit	*
Deposit Interest	*
Re-establishment (Within 12 Months)	**
NSF Check	20.00
Deferred Payment	***
Meter Reread (If Correct)	20.00
Late Fee	1.5%
After Hours Service Charge	40.00

Monthly Service Charge for Fire Sprinkler:

4" or Smaller	****
6"	****
8"	****
10"	****
Larger than 10"	****

* Per Commission rule A.A.C. R-14-2-403(B).
** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).
*** 1.5% of the unpaid balance per month.
**** 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than $5.00 per month. The Service Charge for Fire Sprinkles is only applicable for service lines separate and distinct from the primary water service line.

IT IS FURTHER ORDERED that the rates and charges approved herein shall be effective for all usage on and after January 1, 2014.

IT IS FURTHER ORDERED that Holiday Enterprises, Inc. d/b/a Holiday Water Company shall notify its customers of the revised schedules of rates and charges authorized herein, as well as information explaining the WIFA surcharge, by means of an insert, in a form acceptable to Staff, included in its next regularly scheduled billing or as a separate mailing to be completed no later than thirty (30) days after the effective date of this Order, and shall file copies of the notice with Docket Control, as a compliance item in this docket, within 10 days of the date notice is sent to customers.

IT IS FURTHER ORDERED that in addition to collection of its regular rates and charges, Holiday Enterprises, Inc. d/b/a Holiday Water Company may collect from its customers a proportionate share of any privilege, sales or use tax, per A.A.C. R14-2-409(D)(5).

IT IS FURTHER ORDERED that Holiday Enterprises, Inc. d/b/a Holiday Water Company shall utilize the depreciation rates shown in Table B of the Engineering Report filed in this matter.

IT IS FURTHER ORDERED that Holiday Enterprises, Inc. d/b/a Holiday Water Company is authorized to incur an 18-to-20 year amortizing loan in an amount not to exceed $225,000 pursuant to a loan agreement with WIFA, and at an interest rate not to exceed that available from WIFA.

IT IS FURTHER ORDERED that such finance authority shall be expressly contingent upon Holiday Enterprises, Inc. d/b/a Holiday Water Company's use of the proceeds for the purposes stated in its application and approved herein.

IT IS FURTHER ORDERED that the expiration date for any unused authorization to incur debt granted in this Decision is December 31, 2015.

IT IS FURTHER ORDERED that Holiday Enterprises, Inc. d/b/a Holiday Water Company is authorized to charge a WIFA surcharge to become effective at a date and in a manner as subsequently authorized by the Commission.

IT IS FURTHER ORDERED that Holiday Enterprises, Inc. d/b/a Holiday Water Company shall file as a compliance item in this Docket, within 30 days of the execution of any financing transaction authorized herein, a notice confirming that such execution has occurred and a certification by an authorized Company representative that the terms of the financing fully comply with the authorizations granted.

IT IS FURTHER ORDERED that Holiday Enterprises, Inc. d/b/a Holiday Water Company shall provide to the Utilities Division, upon Staff's request, a copy of any WIFA loan documents executed pursuant to the authorizations granted herein.

IT IS FURTHER ORDERED that upon filing of the loan closing notice, Holiday Enterprises, Inc. d/b/a Holiday Water Company shall file in this Docket, an application requesting to implement an associated surcharge.

IT IS FURTHER ORDERED that Holiday Enterprises, Inc. d/b/a Holiday Water Company shall track and separately record as a regulatory liability, the surcharge proceeds associated with the Debt Service Reserve Fund, and maintain an accurate balance of the regulatory liability until its obligation to ratepayers is completely satisfied.

IT IS FURTHER ORDERED that Staff shall calculate the appropriate WIFA surcharge and prepare and file a Recommended Order for Commission consideration within 30 days of the filing of a sufficient surcharge implementation request by the Company, and shall calculate the surcharge based on the actual loan debt service (interest and principal payments), WIFA reserve and incremental income and property taxes using the current customer count at the time of the loan closing.

IT IS FURTHER ORDERED that upon Commission approval of the WIFA surcharge, Holiday Enterprises, Inc. d/b/a Holiday Water Company shall open an interest-bearing account into which all WIFA surcharge funds collected from customers shall be deposited, and that funds from this account shall be used solely to repay the WIFA loan and any income tax liability resulting from the surcharge.

IT IS FURTHER ORDERED that Holiday Enterprises, Inc. d/b/a Holiday Water Company shall file its next general rate case no later than June 30, 2018, using a test year ending December 31, 2017.

IT IS FURTHER ORDERED that Holiday Enterprises, Inc. d/b/a Holiday Water Company may upon filing of the loan closing notice, pledge its assets in the State of Arizona pursuant to A.R.S. §40-285 and A.A.C. R18-15-104 in connection with the WIFA loan.

IT IS FURTHER ORDERED that Holiday Enterprises, Inc. d/b/a Holiday Water Company may engage in any transaction and execute any documents necessary to effectuate the authorizations granted.

IT IS FURTHER ORDERED that approval of the financing set forth herein does not constitute or imply approval of disapproval by the Commission of any particular expenditure of the proceeds derived thereby by purposes of establishing just and reasonable rates.

IT IS FURTHER ORDERED that Holiday Enterprises, Inc. d/b/a Holiday Water Company shall monitor its water usage and submit the gallons pumped and sold to determine the non-account water on a monthly basis for one full year; and that it should coordinate when it reads the well meters each month with customer billing so that an accurate accounting is determined. The results of this monitoring and reporting shall be docketed as a compliance item in this docket within 15 months of the effective date of this Order. If the reported water loss is greater than 10 percent, Holiday Enterprises, Inc. d/b/a Holiday Water Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If Holiday Enterprises, Inc. d/b/a Holiday Water Company believes it is not cost effective to reduce the water loss to less than 10 percent, it shall submit a detailed cost/benefit analysis to support its opinion. In no case shall Holiday Enterprises, Inc. d/b/a Holiday Water Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item in this Docket within 15 months of the effective date of this Order.

IT IS FURTHER ORDERED that Holiday Enterprises, Inc. d/b/a Holiday Water Company shall file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of this Decision, at least three BMPs in the form of tariffs that substantially conform to the templates created by Staff (available on the Commission's website at http://www.azcc.gov/Divisions/Utilities/forms.asp) for Commission review and consideration.

IT IS FURTHER ORDERED that Holiday Enterprises, Inc. d/b/a Holiday Water Company shall file by May 31, 2015, as a compliance item in this docket, a copy of the Approval of Construction issued by ADEQ for its two new wells and three storage tanks.

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IT IS FURTHER ORDERED that unless already filed, Holiday Enterprises, Inc. d/b/a Holiday Water Company shall file a Curtailment Tariff by January 31, 2014.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN — COMMISSIONER

COMMISSIONER — COMMISSIONER — COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 7th day of January ~~2013.~~ 2014

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT ____________________

DISSENT ____________________

JLR:ru

DECISION NO. 74261

SERVICE LIST FOR: HOLIDAY ENTERPRISES, INC. DBA HOLIDAY WATER COMPANY

DOCKET NOS.: W-01896A-13-0238 & W-01896A-13-0239

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